No. 8215.

In the United States Circuit Court of Appeals

For the Ninth Circuit.

In-a-Floor Safe Co., Ltd., a corporation,

Defendant-Appellant,

vs.

Diebold Safe & Lock Company,

Plaintiff-Appellee.

APPELLANT'S BRIEF ON APPEAL.

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APPELLANT'S BRIEF ON APPEAL.

INTRODUCTION.

May It Please Your Honors:

This is an appeal from the denial by the District Court of defendant's motion to amend its answer so as to set up a counterclaim charging the plaintiff with infringement of a patent, under which the defendant holds an exclusive license, legal title being in the defendant's president, and praying that the plaintiff be enjoined from such infringement.

Jurisdiction is invoked under section 129 of the Judicial Code, 28 U. S. C. A. 227, as interpreted by

Naivette, Inc., v. Philad Co., 54 Fed. (2d) 623 (C. C. A. 6);

General Electric Co. v. Marvel Rare Metals, 287 U. S. 430;

to the effect that denial of a counterclaim praying for an injunction is tantamount to a denial of the injunction prayed for therein and is therefore appealable under this section.

STATEMENT OF FACT.

The plaintiff, a corporation of Ohio [paragraph 1 of the bill of complaint, Transcript of Record page 4], brought suit against the defendant in the Southern District of California, alleging that the defendant was infringing the plaintiff's patent to William C. Miller, No. 1,965,296, issued July 3, 1934. The defendant has alleged in the proposed counterclaim [paragraph F, Transcript of Record page 24] to have acquired in 1931 an exclusive license by mesne assignments under United States letters patent to Belknap, No. 1,887,866, issued November 15, 1932. The defendant thus secured the exclusive license under the Belknap patent long prior to the commencement of this action by the plaintiff. The dry legal title to the Belknap patent, No. 1,887,866, which may be considered as being held in trust for the benefit of the defendant, still stands in the name of Samuel L. Belknap. He has been since a time before the filing of this suit, and now is, the president and principal stockholder of the defendant. [Paragraph G, Transcript of Record page 25.]

The plaintiff having charged the defendant with infringement of the Miller patent and thus having submitted itself to the jurisdiction of the District Court for the purpose of any counterclaim permitted under the Equity Rules,

> *General Electric Co. v. Marvel Rare Metals Co.*, 287 U. S. 430, *supra*,

the defendant wishes to avail itself of the opportunity to sue the plaintiff for infringement of the Belknap patent under which the defendant holds an exclusive license and thus have the trial of the action based on the Belknap patent take place in the defendant's own jurisdiction—a convenience to defendant—and to have the trial of the two cases take place together—a saving in expense as well as affording the Court an excellent opportunity to thoroughly compare the merits of the plaintiff's Miller patent and the defendant's Belknap patent.

The legal title holder to the defendant's patent being the defendant's president and his not being specifically named as a party defendant in the original suit, the question presented is whether or not under Equity Rule 30 as amended in 1925 Belknap may be brought in as a party so as to have the legal title before the Court in addition to the equitable title of the exclusive-licensee-defendant, which is already before the Court, and thus join the exclusive-licensee-defendant in counterclaiming infringement by the plaintiff of the Belknap patent.

The District Court has denied "the application for leave to assert a counterclaim and to bring in the said Belknap" as a party. [Bottom of page 31, Transcript of Record.]

ASSIGNMENTS OF ERROR.

The assignments of error are that the District Court erred:

(1) in denying the application for leave to assert a counterclaim;

(2) in denying the application to bring in Samuel L. Belknap as co-defendant;

(3) in failing to order that the defendant be granted leave to assert a counterclaim and that Samuel L. Belknap be brought in as co-defendant.

ARGUMENT.

It will be noted at the outset that the plaintiff's Miller patent and the defendant's Belknap patent, copies of which are included in the record, are very similar, and that the defendant's Belknap patent is the earlier in time of filing and in time of issue. Trial of a suit based upon the Miller patent could therefore be easily conducted jointly with a counterclaim based on the Belknap patent.

It is to be noted also that the defendant had the exclusive license under the Belknap patent years before the plaintiff instituted suit and that the case is therefore readily distinguishable from

Texas Co. & Parks-Cramer Co. v. Borne-Scrymser Co., 68 Fed. (2d) 104 (C. C. A. 4);

Borne-Scrymser Co. v. Gaffney Mfg. Co., 5 Fed. Supp. 405;

Prosperity Co., Inc., v. American Laundry Co., 6 Fed. Supp. 515.

Furthermore, it is to be noted that the plaintiff is charged with having infringed the Belknap patent prior to the commencement of the plaintiff's suit. [Transcript of Record page 26.]

The District Court sets forth no reasons why it denied the application to assert a counterclaim or to bring in the party Belknap as a co-defendant.

Our contentions are as follows:

1. In an original infringement suit a defendant owning legal title to a patent that the plaintiff has been infringing may assert a counterclaim charging an equitable cause of action for infringement.

General Electric Co. v. Marvel Rare Metals, 287 U. S. 430;

Leman v. Krentler Arnold Co., 284 U. S. 448;

Equity Rule 30.

2. An exclusive licensee under a patent may join with the legal title holder in prosecuting suits for infringement and if the legal title holder is hostile the exclusive licensee may institute suit in its own name alone and join the legal title holder as a party defendant.

Independent Wireless v. Radio Corporation, 269 U. S. 459.

3. In instituting a suit for infringement or in asserting a counterclaim the legal title to the patent at the time of the infringement must in some way be before the Court either as a party plaintiff or as a party defendant.

Independent Wireless v. Radio Corporation, 269 U. S. 459;

Crown Die v. Nye Tool, 261 U. S. 24.

4. Where the defendant is an exclusive licensee under a patent that the plaintiff is infringing instead of the legal title holder of that patent, the defendant may assert a counterclaim based on the plaintiff's infringement of that patent and cause the legal title holder to be brought in as a defendant under the amendment made in 1925 to Equity Rule 30 providing:

> "When in the determination of a counterclaim complete relief cannot be granted without the presence of parties other than those to the bill, the Court shall order them brought in as defendants if they are subject to its jurisdiction."

Obviously, if no relief whatsoever can be granted in the absence of Belknap under *Independent Wireless v. Radio Corporation,* 269 U. S. 459, *supra,* "complete relief cannot be granted without the presence of" Belknap. The District Court is therefore authorized and in fact ordered by the amendment to Equity Rule 30 to bring in Belknap, the legal title holder to the Belknap patent, to comply with the rule that the legal title must be before the Court.

5. The sole reason for bringing in Belknap as a party defendant is to have the legal title before the Court and thus supplement the equitable title to the Belknap patent which is already before the Court in the exclusive-licensee-defendant. He is not bringing into this case an entirely new cause of action in which the defendant has no interest which is being injected for the first time upon his being made a party.

6. The case is to be distinguished from the line of cases to the effect that an intervener cannot counterclaim, such as:

Chandler & Price Co. v. Brandtjen & Kluge, Inc., et al., 296 U. S. 53;

Brandtjen & Kluge, Inc., v. Joseph Freeman, Inc., et al., 75 Fed. (2d) 472.

In such cases the intervener comes into the case and brings into the case with him for the first time a claim against the plaintiff and in which the defendant has no interest. As stated by Mr. Justice Learned Hand in the latter of these cases:

> "On the other hand, the plaintiff has not chosen him (the intervener) as an antagonist; on the contrary, he has intruded himself into the dispute. It is not fair to charge the plaintiff with notice of such cross suits as may be so forced upon him; he cannot be said to have accepted their hazard when he sued the original defendants."

In the present case, however, where the defendant has had for many years past an exclusive license under the Belknap patent and by virtue of that exclusive license has been manufacturing and selling safes in competition with the plaintiff, it is eminently fair to charge the plaintiff with notice of a cross suit or counterclaim that may be forced upon the plaintiff when the plaintiff institutes suit against the defendant. In so far as the plaintiff was aware, the defendant itself might well have acquired the complete title to the Belknap patent in 1931 instead of merely the exclusive license under it and the plaintiff

might well have expected retaliation by the defendant by a counterclaim charging the plaintiff with infringement of the Belknap patent when the plaintiff brought this suit. It is only circumstance that the defendant has merely the exclusive license under the Belknap patent and not the complete legal title.

A distinction may well be made between this case and the line of cases to the effect that an intervener cannot counterclaim, for in this case the defendant already has the complete equitable interest in the Belknap patent, and has had that interest long before this suit was brought. Had the dry legal title holder, Belknap, been hostile, defendant as exclusive licensee could have initiated an independent suit against the plaintiff and joined Belknap as defendant.

> *Independent Wireless v. Radio Corporation,* 259 U. S. 459, *supra.*

Such suit would have had to be brought in Ohio or in compliance with section 48 of the Judicial Code, 28 U. S. C. A. 109. It is our contention that now that the plaintiff has sued the defendant, who already has the full equitable interest in the Belknap patent, that instead of bringing such an independent suit in a foreign jurisdiction, the defendant may assert the same charge as a counterclaim in this suit. The defendant, of course, had no control over the naming of the parties to the original action, but if it is necessary that the legal title holder be before the Court in order for the defendant to assert its equitable

interest the Court is justified in bringing in Belknap, who is subject to the jurisdiction of the Court as a party defendant under the amendment to Equity Rule 30.

Decisions rendered prior to 1925, the date of the amendment to Equity Rule 30, are not pertinent. See 28 U. S. C. A. following section 723. In this volume at page 191, note 478, there is the following:

> "It has been held that a counterclaim which may be set up in the answer must be one which might be the subject of a suit against the complainant and a counterclaim alleging causes of action against others who were not parties and asking that they be made parties held properly stricken out. *Looney v. Thorpe Bros.,* 277 Fed. 367. See also *United States v. Woods,* 223 Fed. 316. *Williams v. Mason,* 7 Fed. (2d) 143. But the amendment of 1925 to Rule 30 apparently overcomes the application of this decision."

Considering decisions touching on the present question rendered subsequent to the amendment of Equity Rule 30, there are the following:

Hunn et al. v. Lewis et al., 25 Fed. (2d) 271,

wherein the Court stated at page 274:

> "The controversy sought to be raised by the cross bill was not one between the cross complainants and the appellee Lewis alone but involved other parties, viz.: Howe . . ., neither of whom was a party to the original bill. *This in itself would not necessarily be fatal, since New Equity Rule 30 provides for the bringing in of new parties necessary to the complete determination of a counterclaim.* . . ."

The counterclaim was refused in that case, however, because "there was no cause of action for contribution stated against Lewis." In

> *Irving Trust Co. v. Marine Midland Trust Co.,* 47 Fed. (2d) 907,

District Judge Wooley categorically stated:

> "Neither a cross bill nor a counterclaim may be filed in equity to bring in new parties,"

citing *United States v. Woods* and *Looney v. Thorpe,* which decisions were rendered prior to the amendment in 1925 to Equity Rule 30. Judge Wooley seems to have been ignorant of or oblivious to the fact that Equity Rule 30 was amended in 1925.

7. Belknap is alleged to be president of and the principal stockholder of the defendant corporation. [Paragraph G, Transcript of Record page 25.] The evidence will show that at the time the plaintiff commenced this suit Belknap owned three hundred of the three hundred two shares of capital stock of the defendant corporation. Such being the case, he is personally liable for the acts of the defendant corporation even though he is not specifically named as a defendant. Under such cases as

> *National Cash Register v. Leland,* 94 Fed. 502, 507,

it would seem that he, personally, would be liable not only to be enjoined as an officer of the corporation but also to be personally liable for damages. Being thus jointly liable with the defendant even though not specifically named in the bill of complaint, justice would seem to require that Belknap be afforded all the rights of a defendant as well as the liabilities regardless of whether he is joined as a co-defendant by name or not.

CONCLUSION.

A defendant may in a counterclaim charge the plaintiff with an equitable cause of action for the infringement of a patent. An exclusive licensee may institute an equitable cause of action for infringement and if his legal title holder is hostile he may join him as a defendant. An exclusive licensee may assert a counterclaim charging an equitable cause of action for infringement in the same manner as he may do in initiating an infringement suit. If his legal title holder is hostile, the exclusive licensee can join him in the action not as co-plaintiff, but as co-defendant. The propriety of the exclusive licensee bringing in his legal title holder for counterclaiming purposes cannot depend upon real or feigned hostility of the legal title holder.

As the defendant has no control over the naming of the parties to the bill, the Court is justified in bringing in the legal title holder as defendant under Equity Rules 30 and 37 so as to have the legal title holder before the Court as required by law, regardless of whether the legal title holder is really or feignedly hostile, or friendly as is the case here.

It is urged that the District Court be reversed and ordered to allow the counterclaim to be entered and to bring in Samuel L. Belknap as a party defendant for the sole purpose of having the legal title to the Belknap patent under which the defendant holds an exclusive license before the Court.

Respectfully submitted,

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